



FAIRFAX COUNTY

OFFICE OF THE COUNTY EXECUTIVE

12000 Government Center Parkway

Suite 552

Fairfax, Virginia 22035-0066

Telephone: (703) 324-2531 Fax: (703) 324-3956

V I R G I N I A

February 25, 2002

Honorable Board of Supervisors
County of Fairfax
Fairfax, Virginia

Madam Chairman, Ladies and Gentlemen:

I am pleased to transmit to the Board of Supervisors my budget proposal for Fiscal Year 2003 which totals \$4,100,356,299, including General Fund Disbursements of \$2,455,890,931, a 4.95 percent increase over the *FY 2002 Revised Budget Plan*. The FY 2003 Advertised Budget Plan is in conformance with the Board's Budget Guidelines which limit County and School expenditure increases to the projected growth in available revenues.

The past year has been marked by achievements and by challenges. One of the most gratifying achievements was Fairfax County's recognition last month by the Government Performance Project and *Governing* magazine as one of the best-managed jurisdictions in America. The grade we received affirms the overall direction of the changes that have been ongoing in the County in recent years and will spur us on to even greater levels of excellence.

This year we also faced many challenges – from the unspeakable acts of terrorism on September 11th, and the anthrax scare that followed in October, to the ongoing economic uncertainty that continues to confront us as we plan for the next fiscal year. Each of these challenges has tested our resilience in different ways. The acts of terrorism and bioterrorism had immediate and profound impacts on our community, our economy, and our sense of security. I know you share my pride in how we responded as an organization to the tragic events of September 11th and to the anthrax scare, only one month later. The words “above and beyond the call of duty” come to mind as I recall the extraordinary level of performance by so many of our employees during those difficult days.

A year ago as I stood before you, the national economy was on the threshold of a recession from which some economists say we are now slowly emerging. Understanding the nature of this recession and accurately gauging the timing and extent of the recovery and its impact on our revenues, have been the most challenging aspects of preparing the budget for FY 2003.

In light of the continuing economic uncertainty and our current resource constraints, the budget I am presenting today includes no major service expansions or new programs in the year ahead. The FY 2003 budget “stays the course” in supporting the initiatives undertaken in previous years and providing support for the priority items in our budget such as education and public safety.

In developing this budget I had very clear objectives in mind which guided me throughout the decision making process.

FY 2003 BUDGET DEVELOPMENT OBJECTIVES

- Strongly support our Schools
- Strengthen our public safety agencies
- Protect our most vulnerable citizens by ensuring that our safety net of services remains in place
- Continue to invest in our workforce, the people who deliver our services and sustain our operations
- Ensure our long-term fiscal stability

This budget continues to support the personnel and programs that enabled us to respond so effectively and efficiently to the extraordinary events on September 11th and in its aftermath, providing them with the resources necessary to keep our communities safe and secure. The FY 2003 budget reflects my firm commitment to provide high quality, efficient and affordable services to Fairfax County residents within the limits of our means.

To ensure our ability to meet this commitment, we have taken a continued cautionary approach to fiscal planning for the next year. As you know, our budget is balanced based on the revenues projected. This year, volumes of mixed and sometimes conflicting economic data have made revenue forecasting extremely difficult. Before we discuss the specifics of this budget – what has been funded and not funded – it is important to focus on what drives the budget process – the economy and its impact on our community and our revenues.

THE ECONOMY

The National Economy

The National Bureau of Economic Research declared the national economy in recession in November 2001, however the contraction in the economy officially began in March 2001. In a number of key indicators, the economic slump has been apparent throughout Calendar Year (CY) 2001, ending more than a decade of unprecedented growth and prosperity, the longest expansion on record in the United States. Most economists believe the economy began slowing at the beginning of CY 2000 showing first in contracted manufacturing activity and substantiated with reductions in job growth, poor performance in the stock market, sharp decreases in business investment, reductions in business inventories and declining consumer confidence levels. The effects of the terrorist attacks on September 11th clearly exacerbated the economic downturn and further restrained economic growth. The U.S. economy's actual third quarter performance fell 1.3 percent, the weakest quarterly performance in a decade.

More recently, the U.S. economy is showing signs of revival. However, clear signals of economic growth are not yet apparent and economic data is mixed, making an affirmative pronouncement on the economy difficult.

On the positive side, the Commerce Department reported on January 30, 2002, that the nation's gross domestic product, which contracted during the third quarter of 2001, increased 0.2 percent during the final three months of the year, signaling to many that the end of the recession is already here. For the year, however, the economy grew 1.1 percent, a deceleration from the 4.1 percent increase in 2000 and the weakest annual growth since 1991. In addition, initial claims for unemployment insurance appear to be falling which is often a leading indicator of economic stabilization.

The Conference Board's Consumer Confidence Index increased to 97.3 in January, its second straight monthly increase, continuing its recovery after confidence levels fell significantly in the weeks after September 11th. The National Leading Index, which declined in both August and September, increased in October and November and again in December. Durable goods orders in December reflected a significant 2 percent increase which may signify future improvements in the manufacturing sector. Despite December's increase, orders for durable goods for the full year were 13.2 percent lower than 2001 and the lowest since 1992.

The housing sector continues to shine spurred on by low mortgage rates. For national home sales, 2001 was the best year on record – 900,000 new single family homes were sold – surpassing the record of 886,000 set in 1998. The National Association of Realtors reports that 5.25 million existing homes were sold in 2001, an all-time high. The rise in sales volume as well as tight housing inventories in many markets pushed up home prices. The appreciation in home values and the corresponding increase in home equity spurred a tide of mortgage refinancings which, in turn, helped boost consumer spending during the slowdown.

On the negative side, capital spending on technology and telecommunications is likely to fall which will impact technology earnings and stock prices, and recent unemployment figures are mixed. Business inventories continue to drop as firms work to eliminate a backlog of unsold goods. Consumer spending is projected to drop in the first quarter of CY 2002 primarily because the zero-percent financing which drove up car sales last year may have pulled many of the planned car purchases forward. Fourth quarter spending increased a solid 5.4 percent, reflecting what some feel may have been the final burst of auto sales. In addition, consumer behavior, accustomed to price decreases and discounts in 2001, may be slow to adjust to full pricing.

Factors such as continued layoffs and lower salary increases may limit consumer purchases in early 2002. Economists are carefully watching these and other indicators that may provide more information on the strength and timing of economic recovery. Most economists predict the recovery will mirror the mild recession. They do not see a robust or dramatic rebound as has occurred following past recessions. They envision a recovery that can best be described as “tepid.” One economist likened the recovery to a rubber band: “If you pull a rubber band back a little, it only snaps back a little.” A recession that is weak and shallow will produce a comparatively weak economic rebound.

The State Economy

On the State level, the recession and previous State actions have had serious and substantial impacts that have multi-year implications. Today, the State budget is out of balance by more than \$1.5 billion in the current fiscal year. The administration is now estimating a total projected budget shortfall of \$3.8 billion over the next 29 months, which has led to substantial cutbacks in State support for many programs. We do not yet know the full impact of these reductions on our services and our citizens.

The Local Economy

For the Northern Virginia economy and Fairfax County in particular, the economic news indicates that this area appears to be more resilient to the negative economic factors that pull down the outlook on the national economy. Dr. Stephen Fuller, the County's economic advisor, points to the economic structure of the Washington, D.C. region that shielded the area from the full force of the recession in 2001. Core industries of Federal government spending, technology, building/construction, international business and hospitality appear more inelastic to changes in the national business cycle and provide some protection of the local economy in times of downturn. According to Dr. Fuller, improvement is anticipated in 2002. The region is expected to add 79,000 jobs this year. Dr. Fuller also projects that significant increases in government spending will boost the local economy, just as government spending served as a catalyst to growth in the last several decades. Overall, growth in the region is expected to be moderate, in comparison to the more robust growth in 1999 and 2000.

In Fairfax County, the economy has not experienced the recession occurring on the national level but growth has slowed considerably. The deceleration in the County's economy was compounded by the September 11th terrorist attacks. Both the County's Coincident Index, which measures the current state of the economy and its Leading Index, which forecasts performance of the County's economy nine to twelve months in advance, are trending downward. However, like the Washington metropolitan region in general, the slowdown is more gradual than that experienced on the national level.

There has been softening in the usually robust job market with increases in unemployment. The vacancy rate for office space has also increased from 3.5 percent in 2000, the lowest rate in 15 years, to 4.9 percent by mid-2001, a seemingly healthy figure. However, when sublet space is included, the vacancy rate jumps to approximately 9.5 percent. Consumer behavior, impacted by both September events and the national recession, has changed significantly in the short term, but longer term is expected to stabilize. The Fairfax County economy grew 8.87 percent in CY 2000, a level higher than originally projected and one that is difficult to maintain long-term. It is clear that the County's economy has slowed; this deceleration was present prior to September 11th but was deepened by the impacts of the terrorist attacks. CY 2001 growth is forecasted at 5.25 percent, still above national and regional levels. Overall growth of 6.05 percent is forecasted in CY 2002 with moderate growth around 5.0 percent forecasted through CY 2005.

IMPACT OF THE ECONOMY ON THE COUNTY BUDGET

Gauging the impact of these economic factors and the fall out on the County's revenue base from the terrorist attacks last fall continues to be problematic. Even before the economic slowdown, the growth in the local economy did not directly impact County revenues. The record breaking pace set in 1999 and 2000 translated into only moderate growth in revenue for the County. This is primarily because the current structure of the County's revenue base forces reliance on the real estate tax and prohibits access to income, a revenue source more closely tied to economic change. So while the State and national budgets reflected surpluses resulting from higher than projected income tax receipts in those years, Fairfax County reported more moderate revenue growth. More recently, as the economic downturn has created problems for Federal budgetmakers and significant budget deficits for the Commonwealth, the impact on Fairfax County's revenues is a bit less dramatic. However, the local economic slowdown has impacted some County revenue categories.

In some revenue categories, the impacts on the national recession and local slowdown have been immediate. Sales tax revenues, for example, which comprise five to six percent of all General Fund revenue were declining prior to September 11th. Since that time, sales tax receipts have dropped sharply. For FY 2002, sales tax receipts are down 6.5 percent, with 10 of the last 11 months negative. The last time sales tax receipts went negative was in FY 1991. Interest on investments has dropped nearly 60 percent from previous years' levels as a result of Federal Reserve action which adjusted the Federal funds rates downward 11 times during 2001 for a cumulative 4.75 percentage point drop. Other revenue categories appear to have slowed but not as dramatically while some revenue sources appear in line with previous projections.

Status of the FY 2002 Budget

As I indicated to the Board of Supervisors in November 2001, anticipated FY 2002 revenues will be less than we projected as part of our FY 2002 Budget. Significant reductions in sales tax receipts, interest earnings, building permit fees and negative adjustments in other categories are necessary based on receipts to date. While some of these reductions are offset by higher than anticipated receipts in personal property taxes, the net reduction in FY 2002 revenue is currently estimated at approximately \$13 million. In addition to the revenue shortfall, I anticipate that some County agencies will need additional resources as a result of the service requirements related to the September 11th events and our ongoing response. Public safety, public health and some human service agencies have been actively involved in investigations associated with the terrorist attack and in dealing with potential biohazards. In addition, services to assist our residents impacted by the economic downturn continue to increase.

Working with senior County managers, I have identified reductions in agency budgets totaling approximately \$17 million through the 5 percent budget reduction exercise initiated in November. No significant service reductions, program changes or position eliminations are required as part of these reductions. However, we have been required to hold positions vacant for extended periods of time which has challenged agencies in terms of service delivery.

I will include these revenue and expenditure adjustments in the *FY 2002 Third Quarter Review*. I must note that based on current revenue forecasts as well as potential action from the General Assembly, I anticipate a further revenue shortfall in FY 2002. I continue to work with staff to identify reasonable spending reductions

to offset this additional shortfall as necessary.

FY 2003 Revenues

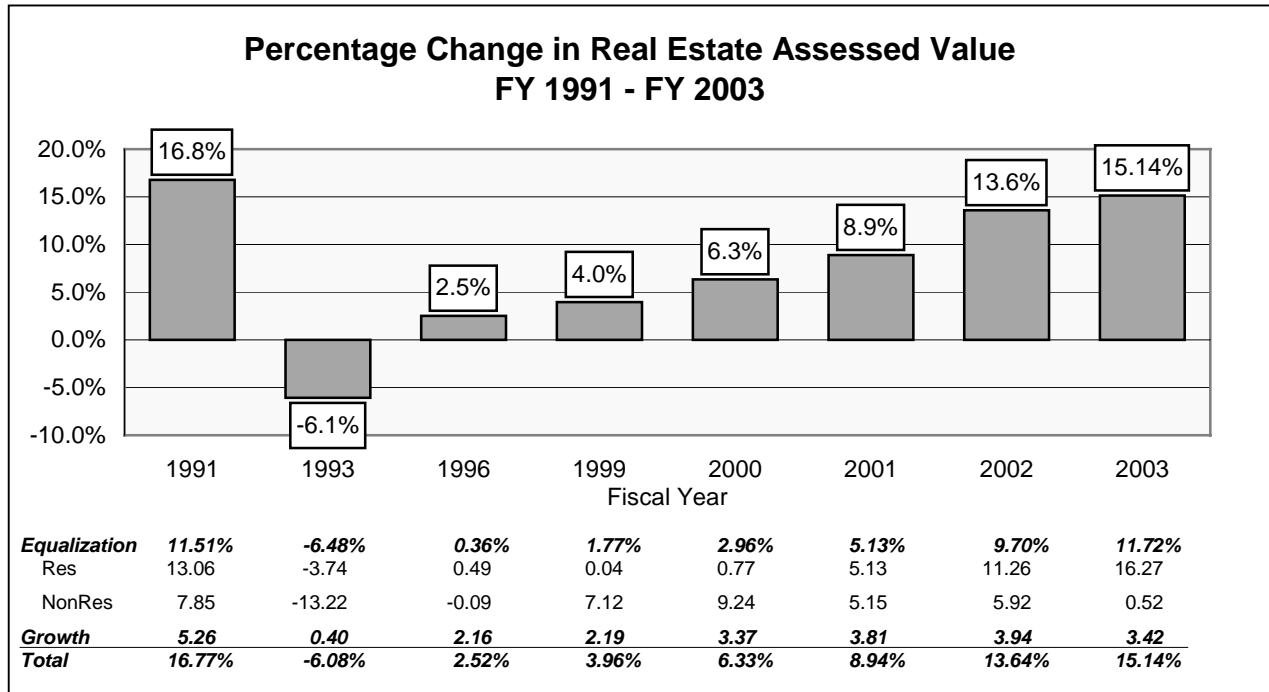
The challenge of forecasting revenues becomes even more daunting in the uncertain environment of an uneven and “anemic” economic recovery. Assumptions for economic growth center on the current downturn continuing to moderate, with next year’s growth projected at a slower yet more sustainable level. There are a few risks in this assumption. Additional terrorist attacks could impact consumer and business confidence levels which will be key in shaping our local and national recovery. Likewise, further corporate failures and business bankruptcies threaten to dampen returning consumer confidence and business optimism.

Also important to our forecasts are Federal and State spending and budget policies. As I noted earlier, Federal spending in the areas of homeland security and defense is likely to have a positive impact on the region’s economy and Fairfax County in particular. However, to support increased spending in these areas, the President’s proposed budget includes significant reductions in spending for many domestic programs. The impact of those cuts on our budget has not yet been determined.

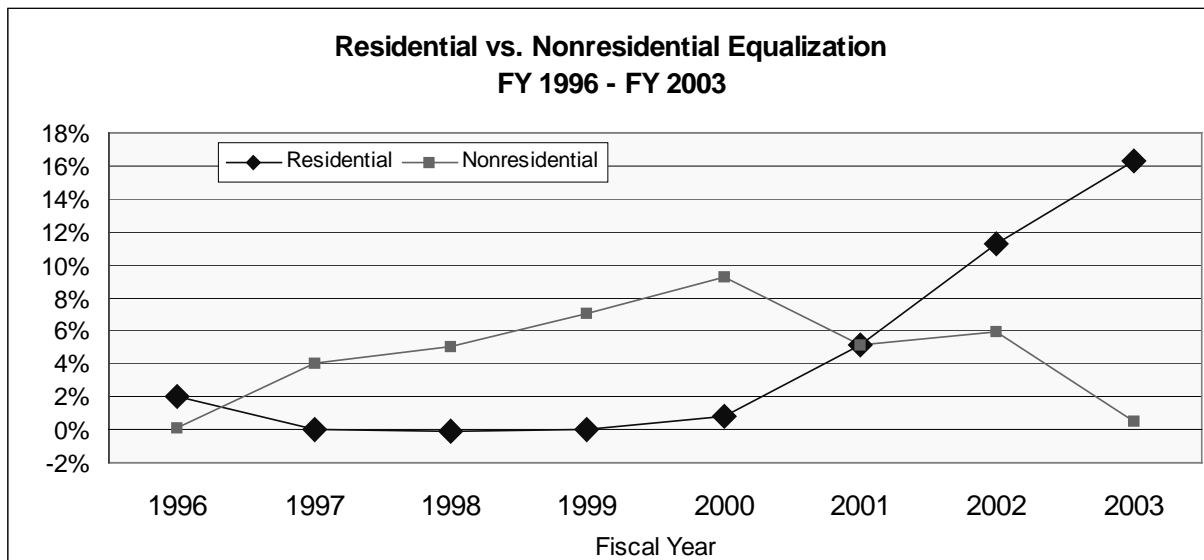
Activity at the State level necessary to deal with multi-year State budget shortfalls will have negative effects on the County’s economy and revenues. At the time the Board and County staff will be working through decisions on the FY 2003 budget, the General Assembly will be making funding reductions in a number of areas to eliminate a deficit of \$1.5 billion. While I have assumed some reduction in State revenue in the FY 2003 revenue estimates, I do not yet have a final estimate of the impact of State revenue reductions or the service changes necessary on the State side for budget balancing.

Overall, County General Fund revenue in FY 2003 is projected at \$2,455,039,810, an increase of 7.07 percent over the FY 2002 level. Once again, increases in real estate tax receipts drive the entire increase in our revenue. In fact, real estate tax revenues account for 111 percent of the total General Fund revenue increase in FY 2003. **Real estate tax receipts are projected to increase approximately 15 percent in FY 2003, with all other categories of revenue actually reflecting a net decrease of 1.6 percent.** In FY 2003, real estate tax receipts will make up 57.4 percent of all General Fund revenues, up from 50.2 percent in FY 2000. Clearly, our dependence on real estate taxes as the major source of County revenue has worsened.

The General Fund Revenue section in this volume provides detail about the components of our FY 2003 real estate assessments. Most significant is the FY 2003 change in residential equalization which increases 16.27 percent. The local housing market activity continued at high levels throughout the past year, breaking records on the national level and driving up prices across the board locally. Although actual volume of sales is mixed – down in some categories of housing and up in others – growth in median sales prices for existing and new homes is double digit for all categories – single family, townhouse and condominium units. The FY 2002 increase in residential equalization, or the reassessment of existing residential property, reflects this price appreciation. This is the third consecutive year of residential equalization over 1 percent, with the nine years prior to that in negative or flat growth since FY 1992. In fact, between FY 1992 and FY 2000, the average annual change in residential assessments for the existing housing stock reflected a loss in assessed value of 0.62 percent.



While the recovery in housing values following a decade of decline represents a positive sign for the County's overall economic well-being, the impact on homeowners is clearly recognized. In FY 2002, the typical household will pay \$3,357 in real estate taxes, an increase of approximately \$470, or more than 16 percent, over last year.



When taking into account growth and inflation since FY 2000, our average County household's real estate taxes increased \$761 or 29 percent in the three-year period. Adjusting for inflation, the average FY 2003 tax bill is up \$441 over the tax bill paid in FY 1991. This is an average annual increase of \$37.

In the absence of this increase in real estate tax revenue, there would be no FY 2003 revenue growth. Even non-residential real estate taxes, a component of overall revenue increases in the past several years, are stagnant. Non-residential equalization in FY 2003 increases just 0.52 percent reflecting rising vacancy rates in various sectors of the commercial market. Growth based on new residential and non-residential construction increases 3.42 percent in FY 2003, slightly down from the last two years. And as I noted earlier, all other categories of revenue are either down or essentially flat. This includes revenue from sales tax receipts, investment income, fees from building permits and inspections, and transient occupancy tax receipts.

I continue to be concerned about the pressure our current revenue structure places on our real estate taxpayers to finance the services and programs of County government. Our revenue base lacks the diversification necessary to provide a stable base and ensure reasonable growth to fund the needs of our growing community. In past budgets, I have noted our frustration at State controls on the County's revenue structure and our inability to look beyond the real estate tax base to provide for the needs of our community, to meet Federal and State mandates, and to maintain our quality services and existing infrastructure. Excluding real estate taxes – the majority of which are directed toward school requirements – nearly 90 percent of our revenue is controlled by the State in terms of rate caps, controls on use and through General Assembly-mandated exemptions. In addition, we have been thus far unsuccessful in obtaining authorization to implement new revenue strategies. As a result, real estate taxes finance the lion's share of our County budget. The increases in residential property values resulting from recent market conditions provide the single greatest source of growth in County revenues. We have no other alternative but to allocate the revenue from this growth to maintain current services. I am encouraged by discussions around the State and in Richmond calling for further study and hopefully real change in County government's ability to implement additional revenue options, fairly distribute the costs of quality services, and reduce reliance on the real estate tax base.

UNFUNDED REQUESTS, DEFERRED COMMITMENTS, FUTURE REQUIREMENTS

Before we review the components of the FY 2003 recommended budget, I think it is important to note the items that are not included in my recommendations. As I stated earlier, this budget takes a "stay the course" approach. Based on the continued economic uncertainty and the limits of our current resources, I was not able to recommend funding for some very important programs and service needs. In addition, this budget did not present the flexibility to put in place reserves and other funding mechanisms necessary to address future requirements. I have summarized these items below:

PUBLIC SAFETY: As the events in this past fall demonstrated, Fairfax County is a first responder to large-scale emergency incidents in the Washington Metropolitan area such as the attack on the Pentagon on September 11, 2001. The County is an integral member of the investigations team established to provide ongoing intelligence regarding future terrorist activity. We were key participants in dealing with the anthrax scare, handling both the hazardous materials calls (over 1,000 calls received to date) related to suspected anthrax contamination as well as distributing information and medication, and providing medical follow-up related to anthrax contamination. We increased surveillance and monitoring of key locations in the County and assisted both Federal and regional agencies in the planning and coordination of long-term response

protocols to new threats of terrorism. All of this response is being and has been provided within the limits of existing staffing and financial resources. If additional funding were available, I would have provided for:

- Funding of \$1.8 million and a staffing increase of 23 positions for a permanent and full-time Hazmat Unit. Absent this increase, the County will continue current operations using firefighters assigned to the Oakton station who are cross-trained. However, this response is on an as-needed basis only and significant activity, similar to that required this past fall, would require increased overtime funding.
- Permanent staffing of a Criminal Intelligence Unit at a cost of \$0.9 million to ensure coordination and appropriate follow-up of criminal and subversive intelligence derived from various sources within the Police Department and other law enforcement areas. This unit was formed in FY 2002 and staffed by reassigning police officers from their normal duties. The unit has been very successful in its work and must continue.
- The Health Department's request for funding of approximately \$70,000 to support a Health Information Officer to coordinate communication with the public, media, private health care providers to assure accurate, pertinent and educational information is available on a timely basis. The need for this position was clearly demonstrated during the anthrax scare.
- Other public safety initiatives including: improvement of coverage through expansion of the public safety radio system, expansion of the In-Vehicle video program, and implementation of the Take-Home Cruiser program; security enhancements recommended for the Government Center Complex and other County facilities; additional staffing to address the increased call volume at our Public Safety Communications Center; and design and implementation of improvements and expansion of our Emergency Operations Center.

PROGRAM EXPANSIONS: This year I received a worthwhile set of requests and had to make difficult decisions that left all new initiatives and proposed program expansions unfunded, and did not address the substantial workload issues within several agencies. The list below does not include all the unfunded items but highlights the scope of services impacted and commitments deferred which we would have funded given more flexibility in the budget.

- No additional funding to expand the Community Health Care Network at the Baileys Health Center to reduce the waiting list of more than 1,000 uninsured families seeking health care services.
- No additional staffing to improve the teacher/child ratios to serve special needs children enrolled in the SACC program, and no expansion of the Middle School or Summer SACC programs. A number of our centers have waiting lists for which space is available but funding is not available to provide for additional operating expenses and staffing requirements.
- No funding was available to: increase shelter capacity for victims of domestic violence, expand mental retardation respite services to reduce the current waiting list, implement Phase II of the highly successful school-based substance abuse prevention program, provide additional public health nurses based on increases in school population, or fund other health and welfare initiatives.

- No inflationary increases were provided except for those for which we are contractually bound or for projected increases in personnel-based contracts. Agencies must absorb the increased costs. This translates into lost buying power for agencies that will face price increases in the materials they purchase and services they procure.
- No additional maintenance staff to provide ongoing preventative maintenance as well as emergency repairs as necessary. No new staff have been added to this program since FY 1999 despite an increase in County facility inventory of 1.2 million square feet during this time.
- No additional funds will be available in FY 2003 for the streetlights, walkways or storm drainage programs, and other critical infrastructure projects.
- The IT Steering Committee received \$29.6 million in funding requests, but was able to approve only \$10.19 million in projects, down from more than \$14.8 million funded last year. The unfunded projects include many projects that would have increased citizen access or improved operational efficiency.
- Our retirees will bear an increasing burden of their already substantial health care costs as we were unable to increase the \$100 monthly supplement we now provide. Each \$10 increase in the subsidy costs approximately \$220,000.

FUTURE YEARS REQUIREMENTS: Due to our current fiscal constraints, I was unable to identify and allocate funds to meet some significant future years obligations. As such, our requirements in FY 2004 and beyond will be even more difficult to support.

- The Judicial Center Expansion project, approved by the voters as part of the 1998 Public Safety bond referendum, incorporates the construction of an approximately 312,000 square foot expansion to the existing Jennings Judicial Center and provides parking to accommodate 2,100 vehicles (a net increase of 900 spaces). Staff is currently completing the design development and construction plan phases of the Judicial Center portion of the project, with the fall of 2003 projected for construction contract award.

This expansion project will consolidate court services, reduce overcrowding, allow after-hour access to the public law library and other court clerk functions, and provide additional courtroom space. The original project cost was estimated at \$71 million and is supported by \$38 million in General Obligation bonds and \$33 million from anticipated State reimbursement associated with the Adult Detention Center expansion.

Since the approval of the bond referendum in November 1998, the estimated costs for the expansion of the Judicial Center have increased significantly. Increases are associated primarily with: higher than anticipated costs per square foot as a result of design requirements for this fully utilized court and the secure areas required for prisoner holding and circulation; additional renovation costs associated with the existing Jennings building (including additional mechanical and electrical work to meet current codes); expansions in response to State mandates; building and site security enhancements; and market escalation of construction costs. As a result, the current project estimate nears \$115 million, a shortfall of \$44 million. Staff has evaluated alternative funding sources to offset this increase, including: the application of \$7.0 million in interest associated with the State jail reimbursement; \$3.0 million associated with the Work Training Center project which has been deferred; approximately \$3.0 million in bond capacity associated with lower than anticipated contract awards for the new Sully Police Station and the

Mount Vernon Police Station expansion projects; \$5.8 million in deferred costs through a lease-purchase agreement for systems furniture; and \$4.0 million in possible grant revenues from the Federal government for security enhancements. The remaining shortfall of approximately \$21 to \$25 million will need to be provided by the General Fund or other sources. Alternatives are currently being explored to address the remaining shortfall, however based on these alternatives and the projected construction timetable, funding may need to be in place as early as FY 2004 or as late as FY 2006.

- FY 2004 funding will also be required to meet the anticipated replacement schedule of FAIRFAX CONNECTOR buses. Although the Board approved a CONNECTOR Transit Bus Fleet Replacement Policy in FY 1997, we have been unable to generate funds for a sizable replacement reserve and most purchases have been made on a pay-as-you-go basis. Based on the age of our fleet and our planned annual replacement schedule, an estimated 11 to 15 buses will require replacement in FY 2004 for a cost of approximately \$4.0 million. Annual funding in the amount of \$4-\$5 million is needed to provide for the replacement of approximately 15 buses per year.

As mentioned earlier, these are only a sampling of the unfunded items for FY 2003. Following are the categories for the recommended components of the FY 2003 Advertised Budget Plan:

RECOMMENDED COMPONENTS

Details on the items funded in the FY 2003 Advertised Budget Plan follow. The highlighted categories include:

- General Fund Revenue
- General Fund Disbursements
- County Support for Fairfax County Public Schools
 - School Transfers
 - Other County Support for FCPS
- Support for Public Safety
- Other New Facilities
- Support for Youth, Family and the Community
- Support for Transportation
- Employee Compensation
 - Other Employee Related Items
- Business Operations (including Information Technology)
- Capital Construction Program
- Tax Rate and Fee Adjustments
- Financial Forecast

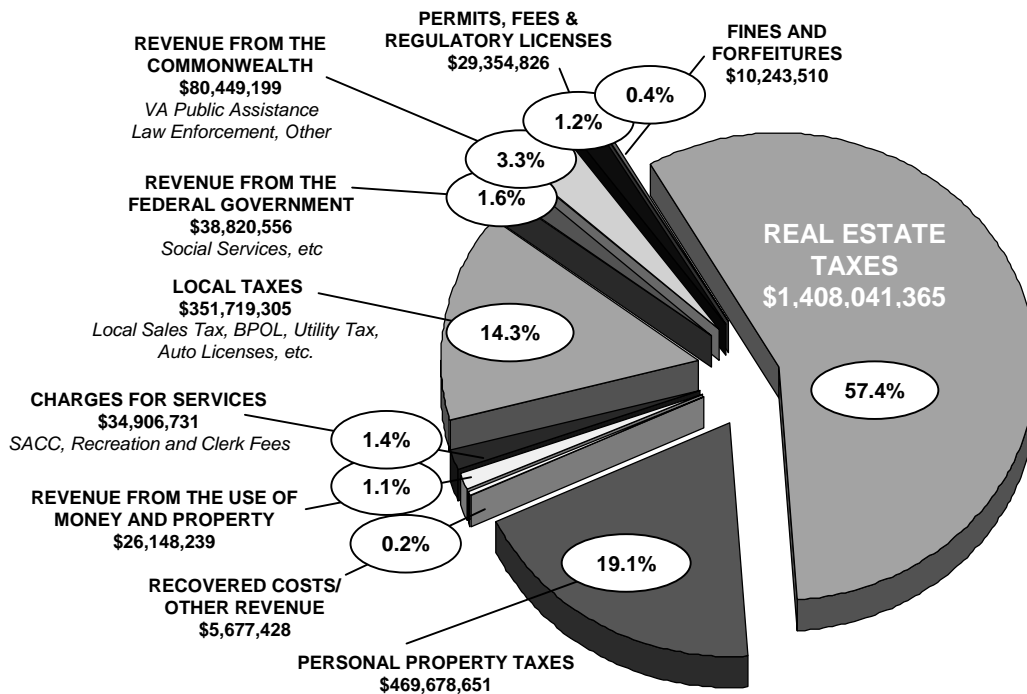
FY 2003 BUDGET

GENERAL FUND REVENUES

FY 2003 revenues are projected to be \$2,455,039,810, an increase of \$162,159,043 or 7.07 percent over the anticipated FY 2002 levels. This increase is driven primarily by an increase of \$179.3 million in real estate tax revenues. The FY 2003 real estate tax base is projected to increase 15.14 percent in FY 2003 due to an increase in equalization of 11.72 percent and a rise of 3.42 percent in new construction. This increase in the real estate tax base is the strongest since the recession of the early 90's. In the decade of the 1990's, the entire real estate base increased only an average of 2.3 percent per year, as compared to increases in the 1980's of 16.2 percent per year. The increase in our tax base is due primarily to substantial increases in our residential tax base, driven by the strong price appreciation of Fairfax County residential properties.

FY 2003 GENERAL FUND RECEIPTS

\$2,455,039,810



FY 2003 BUDGET

GENERAL FUND DISBURSEMENTS

The recommended FY 2003 General Fund disbursements total \$2,455,890,931, which reflects an increase of \$115,730,541 or 4.95 percent over the *FY 2002 Revised Budget Plan*. Included in this amount is a transfer of \$1,156,261,517 to the School Operating Fund, which reflects an increase of \$76,349,761 or 7.07 percent over FY 2002, and is in conformance with the Budget Guidelines approved by the Board of Supervisors.

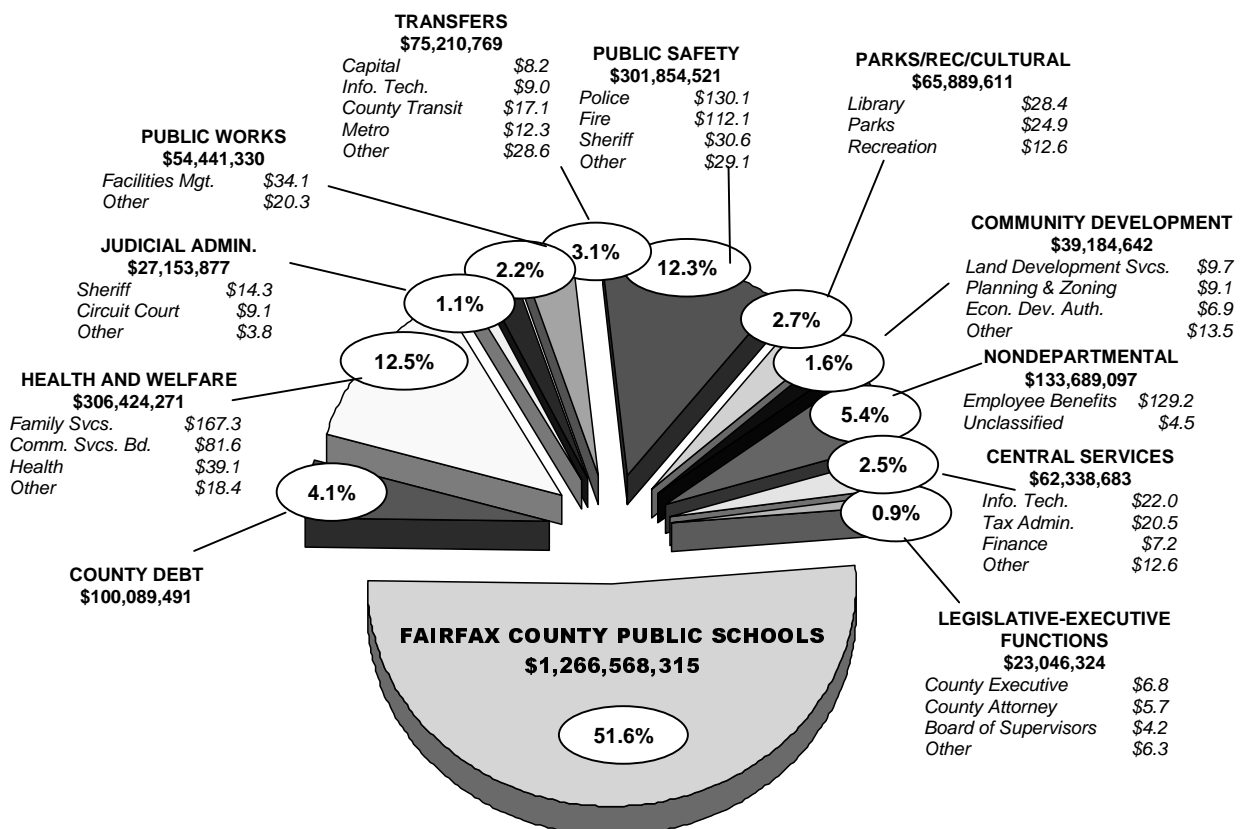
The actual transfer request approved by the School Board on February 7, 2002 is \$1,217,919,664 and reflects an increase of \$138,007,908 or 12.8 percent over the FY 2002 transfer. The School Board's request exceeds the 7.07 percent Budget Guidelines by \$61.7 million. In order to fully fund this \$61,658,147 increase over the Budget Guidelines, additional resources would need to be considered by the Board of Supervisors.

Recommended General Fund direct expenditures total \$932,376,823 reflecting an increase of \$35,988,951 or 4.01 percent over the *FY 2002 Revised Budget Plan*.

A summary of the major recommendations included in the FY 2003 budget is presented on the following pages. Details concerning each of these items can be found in the various budget volumes.

FY 2003 GENERAL FUND DISBURSEMENTS

\$2,455,890,931



Summary General Fund Statement

(in millions of dollars)

	FY 2002 Revised Budget Plan	FY 2003 Advertised Budget Plan	Increase (Decrease) Over Revised	Percent Inc/(Dec) Over Revised
Beginning Balance ¹	\$78.56	\$46.80	(\$31.76)	-40.43%
Revenue ^{2, 3}	\$2,292.88	\$2,455.04	\$162.16	7.07%
Transfers In	\$2.91	\$3.17	\$0.25	8.62%
Total Available	\$2,374.36	\$2,505.01	\$130.65	5.50%
Direct Expenditures	\$896.39	\$932.38	\$35.99	4.01%
Transfers Out				
School Transfer ⁴	\$1,079.91	\$1,156.26	\$76.35	7.07%
School Debt Service	105.53	110.31	4.78	4.53%
Subtotal Schools	\$1,185.44	\$1,266.57	\$81.13	6.84%
Metro	\$11.45	\$12.27	\$0.82	7.18%
Community Services Board	76.12	81.65	5.53	7.26%
Capital Paydown	10.84	8.17	(2.67)	-24.66%
Information Technology	13.40	9.03	(4.36)	-32.57%
County Debt Service	98.01	100.09	2.08	2.12%
Other Transfers	48.52	45.74	(2.78)	-5.73%
Subtotal County	\$258.33	\$256.95	(\$1.39)	-0.54%
Total Transfers Out	\$1,443.77	\$1,523.51	\$79.74	5.52%
Total Disbursements	\$2,340.16	\$2,455.89	\$115.73	4.95%
Ending Balance	\$34.20	\$49.12	\$14.92	43.63%
Less:				
Managed Reserves	\$46.80	\$49.12	\$2.31	4.95%
County Executive reductions to be identified at the <i>FY 2002 Third Quarter Review</i> ⁵	(\$12.61)	\$0.00	\$12.61	-100.00%
Total Available	\$0.00	\$0.00	\$0.00	0.0%

¹ The FY 2002 Revised Beginning Balance reflects audit adjustments for revenue as included in the FY 2001 Comprehensive Annual Financial Report (CAFR). The FY 2001 Audit package detailing all of these changes will be included in the *FY 2002 Third Quarter Review*. As a result, the FY 2002 Revised Beginning Balance has been increased by \$255,800.

² *FY 2002 Revised Budget Plan* revenues reflect a decrease of \$12,866,977 based on revised revenue estimates of October 2001. The *FY 2002 Third Quarter Review* will contain a detailed explanation of these changes.

³ Personal Property Taxes that are reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 are included in the Revenue from the Commonwealth category in accordance with guidelines from the State Auditor of Public Accounts.

⁴ In accordance with the Board adopted guidelines for the FY 2003 Budget, the proposed County General Fund transfer for school operations in FY 2003 totals \$1,156,261,517 an increase of \$76,349,761 or 7.07 percent over the *FY 2002 Revised Budget Plan* transfer. It should be noted that the actual transfer request approved by the School Board on February 7, 2002 is \$1,217,919,664 an increase of \$138,007,908 or 12.8 percent over the FY 2002 transfer level. In order to fully fund this \$61,658,147 increase over the Budget Guidelines, additional resources would need to be considered by the Board of Supervisors.

⁵ The *FY 2002 Revised Budget Plan* available balance reflects a decrease of \$12.61 million which includes the impact of the FY 2001 audit adjustments for \$0.26 million and the FY 2002 revised revenue estimates of \$12.87 million as of October 2001. The *FY 2002 Third Quarter Review*, will include appropriate expenditure and revenue adjustments to address this issue.

BUDGET HIGHLIGHTS

County Support for Fairfax County Public Schools

For FY 2003, Fairfax County is providing more than 51 percent of its total General Fund budget to Fairfax County Public Schools (FCPS). This level of funding accounts for approximately 75 percent of the FCPS Operating budget. Funding is provided through two transfers – one transfer to support operations and another to support debt service for bond-funded capital projects to build new schools and renew older facilities.

SCHOOL TRANSFERS

School Operating: \$1,156,261,517
School Debt Service: \$110,306,798

- In conformance with the Budget Guidelines, a transfer of \$1,156,261,517 to the School Operating Fund is included and represents an increase of \$76,349,761, or 7.07 percent.
- On February 7, 2002, the School Board approved a transfer request of \$1,217,919,664, which reflects an increase of \$138,007,908 or 12.8 percent over the FY 2002 transfer level. This request is \$61.7 million greater than the Budget Guidelines.
- The FY 2003 transfer for School Debt Service is \$110,306,798, an increase of \$4.78 million over the *FY 2002 Revised Budget Plan*. The combined transfer for School operating and School debt service is \$1.27 billion which represents 51.6 percent of total County disbursements. Since FY 2000, the Board of Supervisors has increased authorized school bond sales from \$100 million to \$130 million each year. This level of sales has accelerated the pace of school construction. In FY 2003, the County has included funding for \$130 million for Public School Construction, which also includes school renewals. This transfer assumes the availability of \$5.7 million by the FCPS as previously agreed for the \$60 million in bonds sold for School capital projects in the fall of 1999 and 2000.

OTHER COUNTY SUPPORT FOR FCPS

\$46.7 million

Fairfax County provides additional support to Fairfax County Public Schools over and above the Operating and Debt Service transfers shown above. For FY 2003, this support totals \$46.7 million to fund the following:

- \$26.9 million for the Comprehensive Services Act (CSA), Head Start and School Age Child Care (SACC) programs,
- \$8.4 million to support Public School Nurses and Clinic Room Aides for schools;
- \$6.8 million for School Crossing Guards and for School Resource Officers who are now assigned to all FCPS high schools, middle schools and alternative schools;
- \$2.4 million in services provided by the Fairfax-Falls Church Community Services Board; and
- \$2.2 million for athletic field maintenance and other recreation programs.

A detailed summary of the School support is provided in the “Financial, Statistical and Summary Tables” section of this volume.

Support for Public Safety

Increased Overtime Funding for Critical Public Safety Programs

\$5,137,901

Overtime funding for the Police Department, Fire and Rescue Department, the Public Safety Communications Center and the Office of the Sheriff has been increased \$5,137,901 or over 23 percent in FY 2003 to support critical public safety requirements.

- An increase of \$2.0 million in the Police Department budget provides primarily for security and investigative work that began after the events of September 11th and is expected to continue based on our current high alert status. This work includes participation in Federal terrorism taskforces, increased surveillance activities, and outreach to residents, neighborhood groups and businesses in target communities.
- An increase of \$1.2 million in extra pay in the Fire and Rescue Department is due to new increased overtime pay requirements mandated by the State relative to the Fair Labor Standards Act.
- Based on the increased call volumes as well as the requirements for staff training associated with the continued implementation of the Emergency Medical Dispatch program, overtime funding supporting the Public Safety Communications Center is increased \$1.3 million.
- Enhancements to security and monitoring of the courthouse as well as to provide staffing associated with the current jail population required an increase of \$0.6 million in the Office of the Sheriff.

Transfer of Animal Shelter Function to Police Department

As part of the FY 2003 budget, the functions of the Animal Shelter are transferred to the Police Department to better reflect the alignment of resources. A total of 19/19.0 SYE positions are being transferred. The Animal Shelter will continue to provide humane care, food, and temporary shelter for approximately 7,500 animals each year.

Sully District Police Station

\$5.94 million

The newly constructed Sully District Police Station is scheduled to open in January 2003, the first new policing district in Fairfax County in 26 years. Funding of \$5,942,418 and 25/25.0 SYE positions are included in FY 2003 for this new facility. Additional staff positions have been provided from the COPS Universal Hiring Program V grant which was approved by the Board in October 2000 and the redeployment of existing positions from within the Police Department.

This level of funding includes Personnel Services funding of \$1,846,115, including \$442,978 in Fringe Benefits, Operating Expenses funding of \$2,222,618 and Capital Equipment funding of \$1,873,685. Operational requirements include: vehicle expenses such as radios, sirens, equipment, and maintenance/replacement costs; telecommunications expenses; furniture and storage cabinets; computer workstations; and other one-time operating expenses associated with the opening of a new facility. Capital Equipment funding provides for the purchase of vehicles for the officers assigned to the new station.

Other New Facilities

School Age Child Care (SACC) Centers

\$373,597

Net funding of \$373,597 is included to support 22/22.54 SYE new positions associated with the SACC program, which provides for the safety, care, and developmental needs of school-age children through enriched learning experiences. In FY 2003, five new rooms will be added to existing school year sites as a result of school renewals, one room each at Camelot and Bren Mar (Mason), Hunters Woods and Dogwood (Hunter Mill), and Orange Hunt (Springfield). Collectively, these five school year sites will serve 250 additional children, including 25 with special needs. In addition, five school year sites will transition from a school-year (9 month) schedule to a year-round (12 month) schedule at Timber Lane and Graham Road (Providence), Franconia (Lee), Glen Forest (Mason), and Dogwood (Hunter Mill). It should be noted that funding of \$1,494,391, including \$225,937 in Fringe Benefits, has been included for costs associated with these SACC program expansions. These expenditures are partially offset by revenue of \$1,120,794, resulting in a net cost of \$373,597. In FY 2003, the school-year program will provide child care for approximately 8,559 children at 125 SACC sites. SACC will also operate 25 general summer centers for approximately 2,551 children and two self-contained special needs summer centers for 50 children. Both the school year and the summer program include integrated spaces for children with special needs.

Little River Glen Adult Day Health Care Program

\$156,512

Funding in the amount of \$156,512 is associated with the July 2003 opening of the Adult Day Health Care program at the Little River Glen facility. This program will serve 35 to 40 frail elderly persons and adults with disabilities. The Adult Day Health Care program provides therapeutic recreational activities, supervision and health care to meet the needs of adults with physical and/or cognitive disabilities. The program enables participants to remain in their homes and communities and provides respite for their full-time caregivers. Two positions (2/2.0 SYE), equipment and supplies are funded for the last 3 months of FY 2003 to allow time for facility preparation and program startup, including the recruitment and hiring of additional staff and procuring furnishings and equipment.

Support for Youth, Family and the Community

Consolidated Community Funding Process

\$8.1 million

FY 2003 will be the first year of a new two-year funding cycle that uses a consolidated process to set priorities and award funds from both the Consolidated Community Funding Pool and the Community Development Block Grant. In FY 2003, there will be approximately \$8.1 million available for the Consolidated Community Funding process, of which approximately \$6.3 million will be in Fund 118, Consolidated Community Funding Pool, and approximately \$1.8 million will be in Fund 142, Community Development Block Grant. This funding is approximately \$0.3 million more than the FY 2002 total of approximately \$7.8 million as a result of a six percent increase in the Fund 118 funding available for community-based agencies. The FY 2003 funding is provided to leverage additional funds through strategies such as cash-match from other non-County sources, in-kind services from volunteers, or contributions from businesses, the faith community, and other sources.

Vendor Contract Inflation Adjustment**\$1.8 million**

Funding increases in Human Service agencies for inflationary adjustments to vendor contracts total \$1.8 million. State revenue reimbursement of \$0.1 million results in a net cost of \$1.7 million in the Department of Family Services (\$373,795), the Health Department (\$638,692) and the Fairfax-Falls Church Community Services Board (\$691,354). The increases are largely the result of personnel-driven contracts and include disability services, emergency homeless shelters, Healthy Families Fairfax, SACC snacks, and maintenance for the Child Care Management System database in the Department of Family Services. The increase also supports maintenance for the Health Department Information System, and \$524,932 in increased contract costs for existing services by primary care providers under the Community Health Care Network. CSB programs impacted include residential, outpatient, and case management services for mental health clients, employment, training, and vocational support for mental retardation clients, and detoxification and methadone services for alcohol and drug services clients.

Special Education Graduates**Fairfax-Falls Church Community Services Board****\$1.37 million**

Funding in the amount of \$1,373,033 is included to provide vocational, transportation, and related services to 94 new special education graduates of the Fairfax County Public Schools. Since 1985, additional County funding for new graduates has been included in the CSB each year, providing for a continuum of services for retarded children/adults. These students have received 20 years of Federally-mandated education. Beyond the mandated special education services, adult services such as employment and training are provided by the CSB. Without this continuity, students may experience regression that could later require more intensive services. Including the June 2002 graduating class, funding of \$16.0 million, or approximately 20 percent of the proposed FY 2003 General Fund Transfer to CSB, supports services for nearly 1,000 former and current special education graduates.

West County Developmental Center**Fairfax-Falls Church Community Services Board****\$400,000**

An amount of \$400,000 is included for the full-year lease costs associated with the West County Developmental Center necessary to accommodate the new class of special education graduates and reduce overcrowding at existing facilities and to address annual program growth for the next several years. It should be noted that \$250,000 for start-up, renovation, and build-out costs was included as part of the *FY 2001 Carryover Review*. Developmental and habilitative services will be provided at this site including health support, speech therapy, training, and some vocational skills development.

Communities That Care Youth Survey
Fairfax-Falls Church Community Services Board

\$65,000

Funding is provided for the procurement, customization, and administration of the second bi-annual *Communities That Care Youth Survey*. The survey, to be administered to 11,000 County 8th, 10th and 12th graders, is an assessment tool to determine the rate of use of illicit drugs, including alcohol, among Fairfax County youth and to provide data about youth substance abuse, mental health, health and anti-social behaviors. The survey data will provide trend data and other information to more effectively direct resources to provide prevention, intervention, and treatment services for youth and is an important data set in applications for Federal and State funds to enhance these services. The first *Communities That Care Youth Survey* was completed in April 2001.

Crisis Care Services for Children and Adolescents
Fairfax-Falls Church Community Services Board

\$834,109

Funding in the amount of \$834,109 will support the full-year operation of a crisis care facility for children and adolescents. This facility will serve children and youth in Fairfax County who do not require psychiatric hospitalization but do require diagnostic assessment and targeted treatment in a short-term secure residential setting. An estimated 70 to 80 percent of all children and adolescents prescreened for hospitalization in mental health emergency services could be diverted from a hospital by staying in a crisis care facility. When fully operational, approximately 300 youth will be diverted from less appropriate placements to this facility. Services will be contracted out to the private sector. In FY 2002, this facility was funded for start-up costs, partial year lease expenses and operating and equipment costs.

West Nile Virus Contract
Health Department

\$350,000

Funding in the amount of \$350,000 has been included in FY 2003 for ongoing contractual services to provide monitoring and proactive services aimed at preventing the escalation of West Nile Virus in Fairfax County. West Nile Virus is an arbovirus, transmitted between birds and mammals by mosquitoes. The Center for Disease Control (CDC) believes the Washington Metro area to be at a high risk potential for an outbreak of the virus over the next few years. FY 2003 services will include picking up dead birds for testing, monitoring and testing mosquito populations in the County via light traps, identification of mosquito breeding areas, applying larvacides to prevent the hatching of adult mosquitoes, treating selected storm sewers to control mosquitoes, and responding to citizen complaints of excessive mosquitoes.

Support for Transportation

Funding for Metro Operations

\$73.5 million

The FY 2003 County budget obligation for Metrorail and Metrobus operations and capital requirements is \$73.5 million, with funding support from a combination of State aid, gas tax revenue, a General Fund transfer, State bonds, and other miscellaneous sources. This funding level supports existing Metrorail and Metrobus service levels, improvements to local bus service provided by WMATA, increased funds for MetroAccess due to increased utilization of ADA paratransit services, continuation of the Springfield Circulator Bus Service, and other service enhancements. This funding level also supports necessary capital requirements including facility and equipment maintenance and support of the existing 103-mile Metrorail system. Capital funding required

County Executive Summary – FY 2003 Advertised Budget as presented on February 25, 2002

for FY 2003 has increased because of additional subsidy requirements for the Infrastructure Renewal Program (IRP). FY 2003 funding of \$15.5 million is included for the IRP, an amount that is expected to increase in future years. The FY 2003 General Fund transfer to Metro is \$12.3 million and \$12.2 million in Capital requirements will be supported by County General Obligation Bonds. Any necessary adjustments to FY 2003 funding levels for Metro Operations will be made at the *FY 2002 Carryover Review*, upon consideration and final approval of the WMATA budget, contingent upon Board of Supervisors' review and approval.

County Transit Funding

\$17.1 million

The FY 2003 County funding requirement for County Transit Systems is \$17.1 million, an increase of \$1.1 million over the FY 2002 level. In conjunction with various State and other miscellaneous funds, this total provides funding for operating and capital expenses for the FAIRFAX CONNECTOR bus system (Huntington, Community Bus Services (CBS), and Reston-Herndon Divisions) as well as the County's share of the subsidy for the Virginia Railway Express (VRE) commuter rail services. These funds support required contractual adjustments in the CONNECTOR bus system, including a 6.1 percent increase for the Huntington Division to support the new contract with Yellow Bus Services approved by the Board of Supervisors on December 3, 2001. This funding level supports current service levels on existing CONNECTOR routes, and the continuation and expansion of the Dulles Corridor Express Bus Service, as well as additional fuel costs associated with the introduction of low-sulfur diesel fuel. In addition, \$1.4 million in funds resulting from a change in the NVTC allocation formula, and available through a transfer from Fund 309, Metro Operations and Construction, will be utilized for various mass transit enhancements such as expanded bus service, and reduced fare initiatives on select transit trips.

Employee Compensation

Attracting and retaining effective employees is key to Fairfax County's success in delivering quality services, developing innovative solutions, and operating efficiently. The County's compensation plans reflect our commitment to providing fair and equitable compensation and benefits competitive with the marketplace. The FY 2003 budget supports our compensation program and includes funding to address a number of refinements. The General Fund cost of the FY 2003 program discussed below is \$21.8 million and is funded entirely within the Budget Guidelines established by the Board.

Non-Public Safety Adjustments

\$9.9 million

For FY 2003, additional funding in the amount of \$9,915,278 is provided. FY 2002 marked the second year of the County's initiative to link pay with performance for the more than 8,000 non-public safety employees covered by Pay for Performance. In an effort to more closely link pay to performance, a new continuous scale was introduced with 12 discrete points (0, 2, 2.5, 3, 3.5, 4, 4.5, 5, 5.5, 6, 6.5, 7) offering employees the opportunity to earn pay increases from 0 to 7 percent, depending on their performance rating. FY 2002 was also the last year for the cost of living adjustment for County employees. For employees in Pay for Performance, future pay increases will be based solely on performance ratings. In FY 2003, funding in the amount of \$8,052,639 for General Fund agencies and \$1,862,639 for General Fund supported agencies for a total of \$9,915,278 is included for pay for performance awards.

In addition, to ensure that pay scales remain competitive with the market, non-public safety pay scales will be increased in accordance with the annual market index, calculated based on data from the Consumer Price Index, the Federal Wage adjustment, and the Employment Cost Index, which includes private sector, state and local government salaries. This approach serves to increase the long-term earning potential of employees as the top of the scale will be adjusted to reflect what is happening in the marketplace. In FY 2003, the non-public safety pay scales are adjusted 2.67 percent based on the current market index. It is important to note this adjustment will not impact most employee salaries as a result of the open ranges, and increases can only be earned through performance.

Uniformed Public Safety Adjustments

\$8.64 million

In FY 2003, pay increases for public safety employees, who are not participating in pay for performance, will be linked to a market rate adjustment and step increments. Funding in the amount of \$1.64 million has been included for public safety merit increments. In addition, \$7.0 million has been included to provide a 2.67 percent market rate adjustment for all public safety employees. This adjustment is consistent with the market index for FY 2003.

FY 2003 Impact of Increases in Fire and Rescue Salaries

\$2.5 million

Adjustments were included in the FY 2002 budget to enhance the competitiveness of Fire and Rescue position salaries. These included a 2 percent increase for the ranks of Lieutenant and above, effective July 2001, and a 4 percent increase for all uniformed employees effective April 2002. The FY 2003 full year impact of these adjustments is \$2,471,450.

Market Study Results

To address issues of employee recruitment and retention and ensure pay competitiveness, annual market studies are conducted on certain job classes which are compared against data on comparable positions in both the public and private sectors. This year, the classes studied included 44 core benchmark classes (selected based on the occurrence of matching job classes in the Metro area and the availability of sufficient market data in the recruitment area) and 33 supplemental benchmark classes (which are more specialized in nature or may be experiencing recruitment/retention problems). Based on the recommendations of the study, employees in classes found to be below market will be moved to a higher pay grade. In accordance with amendments to the Personnel Regulations made in FY 2001, individuals in the "S" pay plan move to the new pay grade but remain at their current pay rate. Only employees whose current pay falls below the minimum for the new pay grade will receive a pay adjustment. Position changes as a result of the market study are reflected in the Job Classification Table found in the "Compensation Plan/Pay Schedules" section in Volume 1 of the FY 2003 Advertised Budget Plan.

Increase in Shift Differential Pay Rate**\$598,067**

FY 2003 is the second year of the three year planned phase-in of an increase in shift differential. County employees, in a number of agencies, work evening and overnight shifts to provide important coverage of County operations outside the normal business hours. In FY 2001, the Department of Human Resources conducted a survey of shift differential rates for the Washington area jurisdictions. The survey indicated that Fairfax County's rates were near the lowest in the region. In order to bring these rates to levels more comparable to those in surrounding jurisdictions, a three year phased increase was proposed for all agencies except for the Fire and Rescue Department where the shift differential increased by \$.44 effective January 12, 2002. In FY 2002, the first year of the phase-in, shift hourly differentials were increased from \$0.50 to \$0.55 and \$0.70 to \$0.75 for public safety 2nd and 3rd shifts, and from \$0.25 to \$0.40 and \$0.35 to \$0.55 for non-public safety 2nd and 3rd shifts. In FY 2003, shift differential hourly rates increase from \$0.55 to \$0.60 and \$0.75 to \$0.80 for public safety 2nd and 3rd shifts, and from \$0.40 to \$0.55 and \$0.55 to \$0.75 for non-public safety 2nd and 3rd shifts. By year three of the phased-in increase, the rates for all County employees will be equivalent to \$0.65 for the 2nd shift and \$0.90 for the 3rd shift, rates more consistent with the region. The FY 2003 increase associated with the changes is \$598,067.

OTHER EMPLOYEE RELATED ITEMS**Health Insurance Cost Increase****\$4.47 million**

In FY 2003, group health insurance premiums total \$36,327,637, an increase of \$4,466,642 or 14.0 percent over the *FY 2002 Revised Budget Plan* level. The increase is based on nationwide health insurance cost growth trends, which result in an average health insurance premium increase of 20.0 percent for both the self-insured plan and HMOs, effective January 1, 2003 (a six-month impact in FY 2003). After slow medical cost growth in the early to mid 1990's, spending for health care has been steadily increasing in recent years. The primary factors in the escalating cost growth are increased utilization and the rising costs of prescription drugs. The County offers a competitive program of health care coverage for employees and retirees. To offset larger premium increases, the plans have been modified to increase deductibles and out-of-pocket limits and add incentives for generic drugs.

Retirement Systems**\$2.2 million**

The FY 2003 employer contributions total \$50,979,190, an increase of \$2,206,119 or 4.5 percent over the *FY 2002 Revised Budget Plan*. The net increase is based on the impact of the changes in the employer contribution rates as determined by the actuarial valuation which results in an increase of \$7,783 and a net increase of \$2,198,336 for pay for performance/merit increments for current staff, new positions and salary adjustments.

Workers' Compensation**\$4.1 million**

An increase of \$4,137,023 in the General Fund workers' compensation premium reflects the one-time use in FY 2002 of available savings due to the cumulative impact of better than projected claims experience. This experience resulted in lower than anticipated workers' compensation liability, which is passed on to the General Fund through reduced premiums. In FY 2003, this balance is unavailable to offset premium costs to the General Fund.

Funding for Training**No Increase**

Training funding in Agency 89, Employee Benefits remains at the FY 2002 Adopted Budget Plan level of \$1,592,150. This level of funding supports the County's Tuition Assistance Program; General County Training Program which includes supervisory development, career development and team building; Language Skills Program; and Information Technology Training. In addition, the agency specific training initiatives undertaken in FY 2002 have been maintained whereby funding for certification training previously budgeted in Employee Benefits was moved to agency operating budgets and professional development training was provided based on a percentage of Regular Salaries and Limited Term funding.

Business Operations**Additional Positions**

A total of 50/50.54 SYE new positions is included in the FY 2003 budget. Of this amount, 49/49.54 SYE new positions are necessary to support new facilities or completed expansions to existing facilities as noted earlier, and one position (non-General Fund) to address workload increases (see detail below). Only 96 net positions have been added to the County's total position count since FY 1991. The position count has remained relatively stable over the past decade despite the addition of new facilities, sizeable increases in workload, and increases in population (and related service requirements) by redirecting resources and effective use of technology. Details are included in the narrative portion of each agency write-up.

▪ Additional Position – McLean Community Center**\$35,000**

Funding of \$35,000 including \$28,000 in Personnel Services and \$7,000 for fringe benefits is included to provide for 1/1.0 SYE additional Recreation Specialist I position. The position will assist the Performing Arts Director with administrative support duties as well as coordination and scheduling of programs, expansion of current programs, and the development of new programs especially in the areas of youth participation. Patron participation has increased from 65,535 hours in FY 1999 to an estimated 86,000 hours in FY 2003. This position is entirely supported with revenues of the Community Center and has no General Fund impact.

Vendor Contract Increases**\$1.4 million**

Funding for contractual increases in Facilities Management (\$890,857) and County Transit (\$498,408) are provided. The increases include elevator maintenance, security and custodial services, parking management and defibrillator training in the Facilities Management Division and contract requirements for FAIRFAX CONNECTOR bus service for the Community Bus Services, Reston-Herndon and Huntington Divisions.

Information Technology (IT) Funding**\$10,193,626**

In FY 2003, a total of \$9,031,626 is transferred from the General Fund, \$540,000 is available as a result of the State's Technology Trust Fund, and \$622,000 is projected in interest earnings. FY 2003 Information Technology funding requests spanned a wide variety of technologies and initiatives, including funding for the continuation of major redesign initiatives, as well as smaller, agency specific technology enhancements, and totaled approximately \$29.6 million. Significant review and analysis were required to manage the technology needs within limited fiscal resources.

Once reviewed, funding consideration was guided by five information technology priorities established by the Senior Information Technology Steering Committee, which is comprised of the County Executive and senior County managers. These initiatives include a mix of projects that provide benefits for both citizens and employees and that adequately balance new and continuing initiatives with the need for maintaining and strengthening the County's technology infrastructure. Funded projects will support initiatives in the Human Services, Planning and Development, Public Safety and Court Services program areas. These priorities are as follows:

Priority	FY 2003 Advertised Funding
Projects Providing Convenient Access to Information and Services	\$3.10 million
Projects Providing a High Level of Responsiveness to Customer Requirements	\$1.39 million
Management of County Information Assets	\$3.23 million
Management of County Technology Assets	\$1.92 million
Management of County Human Resource Assets	<u>\$0.55 million</u>
TOTAL	\$10.19 million

Health Insurance Portability and Accountability Act (HIPAA)**\$200,000**

FY 2003 funding of \$200,000 is included in the Department of Information Technology to support technical and business operation requirements to meet the Federally-mandated Health Insurance Portability and Accountability Act (HIPAA) passed by Congress in 1996. This Act requires a number of measures in order to protect the privacy of individually identifiable health information. It is anticipated that a majority of the requirements will require changes to business practices, staffing allocations, facility configurations and awareness training. Every County agency will need to assess their handling of data and procedures within their business practices, and incorporate the privacy provisions in all systems they use. HIPAA compliance for electronic transmission standards is required by October 2002. Compliance with privacy and disclosure regulations is required by April 2003. Security and storage regulations will be implemented at a future date.

Solid Waste Disposal Transfer**\$3.6 million**

In FY 2003, to fund the operating deficit for Fund 110, Refuse Disposal, a General Fund transfer of \$3,620,306 is required, a reduction of \$1,879,694 from the FY 2002 level of \$5.5 million primarily due to projected increased waste tonnage and the FY 2002 negotiated contracted disposal rate increase from \$36.00 to \$37.95 per ton. The County's refuse disposal system had maintained a stable disposal rate over the past five years in order to remain competitive and retain tonnage levels at the required 930,750 tons per year at the Energy Resource Recovery Facility. As a result, program costs over the same period exceeded

revenues by a yearly average of \$4.8 million. These shortfalls had been absorbed from fund balances that were depleted in FY 2000. In FY 2001, \$5.46 million was made available from the Rate Stabilization Reserve in Fund 112, Energy Resource Recovery Facility to cover the operational shortfall and an additional \$5.5 million was transferred from the General Fund in FY 2002. In FY 2003, a transfer of \$3.6 million from the General Fund will allow the County to maintain current refuse disposal rates and continue to provide the level of service to specific disposal programs that do not fully recover their costs. The subsidized programs include the County's Recycling Program, Household Hazardous Waste Program, and Code Enforcement Program. The FY 2004 General Fund transfer to Fund 110 could increase, primarily as a result of economic factors which may result in a decrease of waste tonnages or a change in the contracted rate for disposal based on current conditions or a more competitive market.

Capital Construction Program

Financial Policies and Debt Management:

In 1975, the Board of Supervisors adopted the *Ten Principles of Sound Financial Management*, a set of policies which has been instrumental in maintaining the County's "triple A" bond rating. The County's exceptional "triple A" bond rating gives its bonds an unusually high level of marketability and results in the County being able to borrow for needed capital improvements at low interest rates, thus realizing significant savings now and in the future for the citizens of Fairfax County. From time to time the Board of Supervisors has amended and reaffirmed the *Ten Principles of Sound Financial Management* in order to address changing economic conditions. The Board last affirmed the *Ten Principles* in August 1988. This year the *Ten Principles* have been revised to reflect current economic conditions and operating practices. Staying current will allow the County to continue to maintain its superior fiscal position, and, more importantly, will enable it to adjust its debt capacity from \$150 million to \$200 million annually to meet increasing capital needs. The Advertised Capital Improvement Program, Fiscal Years 2003-2007 (With Future Fiscal Years to 2012) presents some alternatives for use of this capacity. In addition to bond financing and bonding capacity, the *Ten Principles* also address management practices related to financial policies and tools. The amendments reflect current fiscal management practices that provide greater accountability. For example, the County has replaced the Management by Objectives (MBO) approach with a performance measurement system that uses a Family of Measures (Output, Efficiency, Service Quality, and Outcome) that is linked to each agency's mission, goals and objectives, and focuses on meaningful results. Further information on the *Ten Principles of Sound Financial Management*, including the 1988 and 2002 (updated) versions, may be found in the "Long-Term Financial Policies and Tools" section of this volume.

In addition, this year marks the beginning of a process to enhance the way the County uses the Capital Improvement Program (CIP) as an effective planning tool for capital facilities. The County has been challenged in recent years to keep pace with facility requirements associated with infrastructure maintenance and growth in population. In order to address these issues and link the CIP to the County's goals as identified in the Comprehensive Plan, staff is working to refine the capital planning process. These refinements include development of Guiding Principles for capital planning and new criteria for developing recommendations for the CIP and the capital budget. Format changes to the CIP document have also been developed to distinguish major maintenance and rehabilitation projects from new or growth-initiated projects and to identify

County Executive Summary – FY 2003 Advertised Budget as presented on February 25, 2002

longer-term (5-10 year) project requirements. The enhancement of the CIP will be an iterative process over the next several years that will result in a comprehensive blueprint for the development and renewal of capital facilities.

Below are details on the components of the Capital Construction Program for FY 2003, including paydown and bond-funded projects.

PAYDOWN CONSTRUCTION PROGRAM

\$20.15 million

An amount of \$20.15 million is included for County Paydown construction in FY 2003 and is directed to the most critical projects. Further detail is provided in the "Capital Projects Overview" section of this volume.

- **County Maintenance** **\$1.79 million**

Funding in the amount of \$1,786,000 will continue to provide general maintenance funds to address priority requirements at County facilities including: carpet replacement; HVAC/electrical replacement, roof repair and waterproofing, parking lot resurfacing, fire alarm replacement, and emergency generator replacement. Funding is also included for miscellaneous building repairs.

- **Parks Maintenance** **\$2.03 million**

Funding in the amount of \$2,029,000 has been included for Park maintenance at non-revenue supported Park facilities to fund such items as: repairs/replacements to roofs, electrical and lighting systems, security and fire alarms, sprinklers, and HVAC equipment; grounds maintenance; minor routine preventive maintenance; and ongoing implementation of ADA compliance at Park facilities.

- **Athletic Field Maintenance** **\$1.80 million**

Funding in the amount of \$1,800,000 has been included for Athletic Field maintenance in order to maintain quality athletic fields at acceptable standards, improve safety standards, improve playing conditions and increase user satisfaction. Maintenance includes: field lighting, fencing, irrigation, dugout covers, infield dirt, aerification and seeding.

- **Stormwater Management** **\$2.42 million**

A total of \$2,420,000 has been included for storm drainage maintenance and emergency repairs including: Kingstowne environmental monitoring, dam safety inspections and improvements; perennial stream mapping; annual emergency drainage repairs throughout the County; and the Virginia Pollutant Discharge Elimination System (VPDES) Municipal Separate Storm Sewer System (MS4) discharge permit. An amount of \$1,600,000 is associated with the VPDES-MS4 permit which is considered a renewal of the National Pollutant Discharge Elimination System (NPDES) permit, and will be valid for five years. In accordance with the permit renewal submission approved by the Board of Supervisors on July 23, 2001, activities will include water quality testing, watershed master planning, improvement programs, and development of the GIS-based storm sewer system inventory. The Virginia Department of Environmental Quality (DEQ) is expected to make a decision regarding final permit requirements in FY 2002.

- **New or Renovated County Facilities** **\$4.60 million**

Funding in the amount of \$4,600,000 has been included for new or renovated County facilities including: \$100,000 to support Phase I of the Girls Softball Complex at Wakefield Park, \$1,000,000 to help offset increased construction costs associated with the West County Recreation Center, and \$1,000,000 to provide monies earmarked for the acquisition of land for future County facilities. In addition, an amount of \$2,500,000 has been included in FY 2003 to begin to address property and liability management at the Laurel Hill (Lorton Prison) property, as well as the master planning required for redevelopment and public use.

- **Payments and Obligations** **\$3.66 million**

Funding in the amount of \$3,664,717 has been provided for costs associated with annual contributions and contractual obligations. Funding of \$1,021,702 is required for the first year of a five-year lease-purchase agreement associated with systems furniture for the new South County Center. FY 2003 represents the final year for reimbursement to the Fairfax County Public Schools for renovations to construct a School Aged Child Care (SACC) facility at Lemon Road Elementary School (\$1,358,691), to replace leased space at Chesterbrook Presbyterian Church. In addition, annual contributions have been provided for: SACC program school operating and overhead costs (\$500,000); final payment of a six-year payment plan to purchase the Mount Gilead property in Centreville (\$105,500); and the County's annual contribution to the Northern Virginia Community College capital program (\$678,824).

- **Revitalization Initiatives** **\$1.85 million**

Funding totaling \$1,850,000 is provided for Commercial Revitalization projects (\$798,000) to be approved by the Board of Supervisors in the context of the Capital Improvement Program (CIP) and/or other planning discussions; and for specific commercial revitalization efforts (\$1,052,000) in Baileys Crossroads/Seven Corners, Annandale, Richmond Highway, Lake Anne, Merrifield, Springfield, and McLean, as well as Commercial Revitalization program costs.

- **Other Paydown Projects** **\$2.0 million**

Other paydown projects totaling \$2.0 million supported in FY 2003 include: safety upgrades and emergency repairs to trails and sidewalks; VDOT participation for sidewalk repair and replacement, developer defaults, annual road maintenance, the Board of Road Viewers program, construction associated with TAC Spot Improvement projects, refurbishment of courtrooms at the General District Court, and assessment studies associated with the Public Safety Communications Center (PSCC) and the County's West Ox Road Complex.

Bond-Funded Projects**\$175.68 million**

In FY 2003, an amount of \$175,684,485 is included in General Obligation bond funding. Of this amount, \$130,000,000 is budgeted in Fund 390, Public School Construction, and \$12,154,147 has been included in Fund 309, Metro Operations and Construction, to support the completion of the 103-mile Metrorail System, as well as maintain and/or acquire facilities, equipment, railcars and buses. In addition, FY 2003 bond funding in the amount of \$33,530,338 has been included for projects such as the Northern Virginia Regional Park Authority (\$2,250,000), West Ox Maintenance Facility expansion (\$2,085,000), construction of the Fairfax Center and Crosspointe fire stations (\$9,305,338), and several projects within the Park Authority bond program (\$19,890,000), including development of athletic fields and infrastructure renovations. Funding for these bond projects is consistent with the FY 2002 - 2006 Capital Improvement Program (With Future Years to 2009) as approved by the Board of Supervisors on April 30, 2001.

TAX RATE AND FEE ADJUSTMENTS

With the exception of the adjustments noted below, there are no changes in the existing tax rates, including the real estate and personal property tax rates, included as part of the FY 2003 Advertised Budget Plan. The following adjustments are proposed:

Sewer Service Rate and Availability Charges

The Sewer Service Rate and Sewer Availability Charge will increase in FY 2003 based on increased costs associated with capital project construction, system operation debt service and upgrades to more effectively reduce nitrogen discharge from wastewater treatment plants in order to meet new, more stringent nitrogen discharge limitations. The Sewer Service Charge rate will increase from \$2.88 to \$2.95 per 1,000 gallons of water consumption in FY 2003. Based on this rate increase, the additional annual cost to the typical household is anticipated to be \$5.32. The Sewer Availability Charge will increase from \$5,069 to \$5,247.

Solid Waste Reduction and Recycling Centers (SWRRC)

The Solid Waste Reduction and Recycling Program (SWRRC) operates on a user fee basis in which program participants purchase a permit which entitles the holder to use the disposal and recycling facilities at two SWRRC sites located in Great Falls and McLean. To fully fund the cost of the SWRRC program for FY 2003, the current annual user fee of \$195 per participant charged to SWRRC customers must be increased to \$280, an increase of \$85 per year. Due to savings and cost control mechanisms SWRRC program costs have only modestly increased since FY 2000, for an average annual increase of 3.5 percent. However, SWRRC program revenues have shown a sharp decrease as a result of a reduction in the number of customers. The number of SWRRC program participants has decreased from 1,092 in FY 1999 to 930 in FY 2001, and is projected to be 850 in FY 2002. Since FY 1998 the SWRRC program has been drawing down its program balance to cover increased personnel and operating costs and the decreased revenues associated with the loss of customers. The program balance will be depleted during FY 2002 and unavailable to support continued deficit spending. The fee increase to \$280 is necessary to offset this funding shortfall and to cover program costs. The SWRRC program will be monitored during the year and at the *FY 2003 Third Quarter Review* to assess the impact of attrition in the customer base adversely affecting the ability of the program to sustain

itself. In the event of continued loss of customers to less expensive alternatives, long-term program operations will not be sustainable.

Computer Depreciation Schedule Adjustment

In accordance with assessment principles and the *Code of Virginia*, which require that property is taxed at fair market value, the Department of Tax Administration (DTA) annually reviews the depreciation rate schedule for computer hardware due to the speed with which computer values change. The computer depreciation schedule was adjusted in each year FY 1999 to FY 2001. It was not necessary to change the depreciation schedule in FY 2002. Based on current trends, however, the computer depreciation schedule for equipment purchased one to three years prior will be adjusted in FY 2003. This change to the computer depreciation schedule is anticipated to reduce Personal Property revenue by approximately \$5.0 million.

FINANCIAL FORECAST

The Financial Forecast for FY 2004 reflects a deficit of approximately \$14 million. In accordance with the Board's Budget Guidelines, increases in County expenditures and the transfer to the Schools have been limited to match the revenue growth rates which is anticipated to be 7.0 percent in FY 2004, a rate consistent with the overall revenue growth rate in FY 2003. As a result, County spending levels are suppressed in order to fit within the scope of the projected revenue growth. Increases associated with our growing population as well as pressures placed on County services from business expansion, State mandates, and other factors cannot easily be accommodated within this level of revenue growth. The County will continue to be challenged in order to balance these increasing service requirements and infrastructure needs within the constraints of projected revenue growth. Details of this growth are included in the "Financial Forecast" section of this volume.

CONCLUSION


The budget plan I am presenting today is a fiscally prudent plan that does not break new ground but keeps us on solid ground. We have balanced critical needs with ongoing operational requirements to create a fiscally sound budget plan.

I have not discounted the cautious optimism we are hearing about an economic recovery; however, I have chosen to err on the side of caution rather than optimism as the most fiscally responsible course in these uncertain times. In taking this disciplined approach, we realized we would be unable to fund many worthwhile projects or address many of the pressing needs in the community.

For years, our approach to financial management has earned us high marks in the financial community, resulting in savings of millions of dollars in interest expense on bonds sold annually. This year, Fairfax County's financial management was rated among the best in the nation by *Governing* magazine and the Government Performance Project. Adherence to our *Ten Principles of Sound Financial Management* has been the foundation of this success. As part of our budget deliberations for FY 2003, we are asking you to reaffirm these *Ten Principles* which have been updated to reflect current economic conditions and management practices. As the basis for our financial planning, these principles ensure our long-term fiscal stability.

In closing, I want to express my appreciation to the Board for your support during the past year. As an organization, we faced a year of challenges and uncertainty but we have persevered and reached new heights of achievement. I believe that is a tribute to your leadership and to the dedication of our employees. I also want to acknowledge the significant contribution of the staff who prepared this information for the Board and the community. We look forward to working with you on the FY 2003 budget.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'A. Griffin' with a stylized flourish at the end.

Anthony H. Griffin
County Executive